

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 PA-02 PRS-01 USIA-15 FEAE-00 AGR-10

ABF-01 FSE-00 EA-10 SWF-01 AID-05 CEA-01 CIAE-00

EB-07 FRB-01 INR-07 NSAE-00 RSC-01 CIEP-02 SP-02

STR-04 TRSE-00 LAB-03 SIL-01 SAM-01 OMB-01 /089 W

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R 221921Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5971

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 22

BEGIN SUMMARY: AMID FURTHER SIGNS OF WEAKENING DEMAND/OUT-

PUT AND ACCELERATING INFLATION, HOPES THAT THE "SOCIAL

COMPACT" WOULD BE TIGHTENED WERE DASHED DURING THE WEEK

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ENDING NOVEMBER 22. RETAIL PRICES AND WEEKLY WAGE RATES

IN OCTOBER ROSE SIGNIFICANTLY AGAIN BUT UNEMPLOYMENT SHOWED A SURPRISINGLY SMALL INCREASE. UNFILLED VACANCIES, HOWEVER, DIPPED SHARPLY. THE MONEY SUPPLY BROADLY DEFINED (M3) SHOWED ONLY A SMALL RISE IN THE MONTH TO MID-OCTOBER (0.5 PERCENT) WHILE THE NARROWLY DEFINED MONEY SUPPLY (M1) ROSE MUCH MORE RAPIDLY (1.4 PERCENT). STEEL PRODUCTION FOR 1974 IS FORECAST TO FALL BY ABOUT 18 PERCENT OVER 1973. THE POUND RATE MOVED SOMEWHAT ERRATICALLY DURING THE WEEK PRIMARILY IN RELATION TO THE SWISS FRANC. THERE WAS MARGINAL MOVEMENT IN THE POUND/DOLLAR RATE, BUT SIGNIFICANT FLUCTUATIONS IN THE AVERAGE TRADE-WEIGHTED MEASURE. THE PRICE OF GOLD CONTINUED TO INCREASE EARLY IN THE WEEK, BUT FELL TO \$182.75 ON THURSDAY (NOV. 21) OFF \$5.75 FROM LAST THURSDAY'S CLOSE. THE DOLLAR INVESTMENT PREMIUM (BASED ON ONE POUND EQUALS \$2.60) INCREASED TO 81-7/8 PERCENT FROM LAST THURSDAY'S LEVEL OF 77-1/2 PERCENT.

END SUMMARY

I. DOMESTIC

1. HOPES THAT THE "SOCIAL COMPACT" WOULD BE STRENGTHENED WERE DASHED THIS WEEK WHEN BOTH THE TRADES UNION CONGRESS (TUC) AND THE CONFEDERATION OF BRITISH INDUSTRY (CBI) REFUSED TO GIVE FRESH GUIDANCE TO THEIR CONSTITUENTS. THE TUC SIMPLY RESTATED THE COMPACT WITH MINOR MODIFICATIONS INSTEAD OF, AS HAD BEEN HOPED, TIGHTENING UP GUIDELINES ON THE FREQUENCY OF WAGE CLAIMS, ON USING THE INTRODUCTION OF A 30-POUND MINIMUM WAGE TO JACK UP ALL OTHER WAGE CLAIMS, AND WHETHER IT IS GROSS OR NET PACE THAT SHOULD KEEP UP WITH INFLATION. THE CBI COUNCIL REFUSED TO ALLOW GUIDELINES ON WAGE BARGAINING TO BE ISSUED AS IT FELT THAT EMPLOYERS HAD NO HOPE OF FOLLOWING THEM IN THE FACE OF UNION MILITANCY UNTIL THE GOVERNMENT IS WILLING TO RESIST INFLATIONARY WAGE CLAIMS. SEE LONDON 15296.

2. RETAIL PRICES ROSE BY 2 PERCENT DURING OCTOBER. THE RETAIL PRICE INDEX (RPI) FOR OCTOBER SHOWED PRICES AT 217.1 (JANUARY 1962 EQUALS 100), UP 17.1 PERCENT OVER THE PAST 12 MONTHS. THE INDEX STOOD AT 212.9 IN SEPTEMBER. THIS INCREASE TRIGGERED 3 MORE THRESHOLDS BRINGING THE

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TOTAL OF THRESHOLDS PASSED DURING THE LIFE OF THE WAGE INDEX OF STAGE 3 OF THE INCOMES POLICY TO 9. THE FINANCIAL TIMES ESTIMATES THAT ABOUT 2.25 BILLION POUNDS HAS BEEN ADDED TO THE WAGES BILL AS A RESULT OF THE THRESHOLD PROVISIONS, WHICH ALLOW A 40 PENCE WAGE INCREASE FOR COVERED WORKERS (ABOUT 10 MILLION) FOR EACH PERCENTAGE POINT ABOVE 6 THAT THE RPI ROSE FROM NOVEMBER 1973 UNTIL OCTOBER 1974.

3. THE BASIC WEEKLY WAGE RATE INDEX ROSE BY 1.5 PERCENT FROM 145.1 FOR SEPTEMBER TO 147.1 FOR OCTOBER (1972 EQUALS 100). OVER THE LAST 12 MONTHS THIS INDEX HAS NOW RISEN BY 22.8 PERCENT, ANOTHER NEW RECORD. PROVISIONAL FIGURES FOR SEPTEMBER INDICATE THAT THE AVERAGE EARNINGS INDEX (SEASONALLY ADJUSTED) ROSE BY 1.8 PERCENT OVER AUGUST. THE INDEX FOR SEPTEMBER STANDS AT 189.0; AUGUST'S INDEX NUMBER WAS 185.5. OVER THE PAST YEAR THE EARNINGS INDEX HAS RISEN BY 20.9 PERCENT. THE WEEKLY WAGE RATE RISE IN OCTOBER IS PRIMARILY DUE TO THE EFFECTS OF A THRESHOLD WAGE RISE IN SEPTEMBER. WITH 3 SUCH THRESHOLDS CROSSED IN NOVEMBER, NEXT MONTH'S WEEKLY WAGE RATE SHOULD

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STR-04 TRSE-00 LAB-03 SIL-01 SAM-01 OMB-01 /089 W

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R 221921Z NOV 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 5972

INFO AMEMBASSY BERN

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AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

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SHOW EVEN SHARPER INCREASES.

4. UNEMPLOYMENT ROSE ONLY SLIGHTLY IN THE PERIOD MID-OCTOBER TO MID-NOVEMBER. THE TOTAL INCREASE IN UNEMPLOYMENT WAS ABOUT 9,000, BUT ON A SEASONALLY ADJUSTED BASIS, UNEMPLOYMENT INCREASED BY ONLY 800 AND REMAINS AT 2.7 PERCENT. OMINOUSLY, HOWEVER, UNFILLED VACANCIES FELL BY OVER 20,000
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DURING THE SAME PERIOD. THIS INDICATES A SIGNIFICANT SLACKENING IN THE DEMAND FOR LABOR, AND HAS TRADITIONALLY SIGNALLED INCREASES IN UNEMPLOYMENT IN THE FUTURE.

5. THE BROADLY DEFINED MONEY SUPPLY (M3) INCREASED BY 0.5 PERCENT (SEASONALLY ADJUSTED) IN THE PERIOD SEPTEMBER 18 TO OCTOBER 16. IT ROSE 0.2 PERCENT IN THE PREVIOUS PERIOD. ON THE MOST RECENT FOUR MONTHS' EVIDENCE, M3 NOW APPEARS TO BE RISING AT ABOUT 14 PERCENT AT AN ANNUAL RATE LESS THAN THE RATE OF INFLATION. ONE REASON GIVEN BY THE BANK OF ENGLAND FOR THE SLIGHT INCREASE IS THAT THERE WAS ONLY A SMALL PUBLIC SECTOR BORROWING REQUIREMENT DURING THE PERIOD; ALSO THERE WERE RELATIVELY LARGE ACQUISITIONS OF TREASURY BILLS BY THE NON-BANK PUBLIC AND SUCH HOLDINGS BY BANKS AND DISCOUNT HOUSES FELL FOR THE FIRST TIME SINCE JUNE. GROWTH OF THE NARROWLY DEFINED MONEY SUPPLY (M1) SPURTED AHEAD BY 1.4 PERCENT IN THE SAME PERIOD, UP FROM 0.2 PERCENT IN THE PREVIOUS PERIOD. DEMAND DEPOSITS ROSE SHARPLY AND TIME DEPOSITS DECLINED, POSSIBLY IN RESPONSE TO FALLING INTEREST RATES.

6. STEEL PRODUCTION BY BRITISH STEEL CORPORATION (BSC) IS NOW REGARDED AS LIKELY TO DECLINE BY ABOUT 18 PERCENT IN 1974 OVER 1973. THIS FALL IS PRIMARILY DUE TO THE ENERGY CONSTRAINTS (BOTH OIL AND COAL) OF THE FIRST QUARTER OF THIS YEAR. BUT THERE HAVE ALSO BEEN A CONSIDERABLE NUMBER OF WORK STOPPAGES BECAUSE OF INDUSTRIAL DISPUTES THAT HAVE CONTRIBUTED TO THE DECLINE IN STEEL OUTPUT.

II. INTERNATIONAL

7. EARLY IN THE WEEK THERE WAS CONTINUED MOVEMENT OUT OF STERLING INTO SWISS FRANCS, ATTRIBUTED TO DIVERSIFICATIONS OF OIL-PRODUCERS' FUNDS. WHILE THE POUND/DOLLAR RATE EX-

HIBITED MINOR FLUCTUATIONS DURING THE WEEK, BOTH CURRENCIES MOVED CLOSELY TOGETHER VIS-A-VIS MAJOR EUROPEAN CURRENCIES. ON A TRADE-WEIGHTED BASIS, THE STERLING DEPRECIATION WIDENED TO 20.7 PERCENT ON MONDAY (NOV. 18), BUT FOLLOWING THE SWISS ANNOUNCEMENT OF THE REIMPOSITION OF NEGATIVE INTEREST ON FOREIGN DEPOSITS, NARROWED TO 19.7 PERCENT ON THURSDAY (NOV. 21). THE PRICE OF GOLD ROSE TO A NEW HIGH OF \$190.75 ON MONDAY, BUT FELL TO \$182.75 ON

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THURSDAY (NOV. 21) OFF \$5.75 FROM LAST THURSDAY'S CLOSE.

8. THE DOLLAR INVESTMENT PREMIUM ON THURSDAY (NOV. 21) INCREASED TO 81-7/8 PERCENT FROM LAST THURSDAY'S LEVEL OF 77-1/2 PERCENT, BASED ON \$2.60 EQUALS ONE POUND. AT MARKET EXCHANGE RATES, THE PREMIUM WAS 60-7/8 PERCENT (BASED ON \$2.3210) COMPARED TO LAST THURSDAY'S PREMIUM OF 56-1/2 PERCENT (BASED ON \$2.3145).

9. THE FORWARD DISCOUNT ON STERLING CONTINUED TO INCREASE WITH A SUBSTANTIAL WIDENING IN THE SIX-MONTH RATE.

	11/14	11/21	CHANGE
1 MONTH	0.75	0.95	UP 0.20
3 MONTHS	2.55	3.05	UP 0.50
6 MONTHS	5.50	6.50	UP 1.00

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R 221921Z NOV 74
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 AMEMBASSY COPENHAGEN
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(ALL FIGURES IN CENTS)

10. EURODOLLAR RATES FLUCTUATED SOMEWHAT UNCERTAINLY DURING THE WEEK WITH THE ONE-MONTH RATE VARYING FROM A HIGH ON MONDAY (NOVEMBER 18) OF 10-1/8 PERCENT TO A LOW ON WEDNESDAY OF 8-7/8 PERCENT, REFLECTING IN PART, THE DOLLAR'S VARYING STRENGTH IN THE EXCHANGE MARKETS.
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	11/14	11/21	CHANGE
1 MONTH	9-7/8	10	UP 1/8
3 MONTHS	10-1/8	10-1/4	UP 1/8
6 MONTHS	10-1/8	10-1/4	UP 1/8

11. THE LOCAL AUTHORITY RATE EXHIBITED NO PARTICULAR TREND MOVEMENT IN THE WEEK FOLLOWING THE LATEST U.K. BUDGET SPEECH.

	11/14	11/21	CHANGE
1 MONTH	11-3/8	11-9/16	UP 3/16
3 MONTHS	11-15/16	12-1/2	UP 9/16
6 MONTHS	12-9/16	12-7/8	UP 5/16

12. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, NOVEMBER 22, 1974.

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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING NOVEMBER 22 BEGIN SUMMARY: AMID FURTHER SIGNS OF WEAKENING DEMAND/OUT-
TAGS: ECON, UK
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005